

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 ABF-01 AS-01 PA-02 PRS-01 /107 W

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R 111731Z MAY 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 8785

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 08014

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING MAY 11)

REF.: BONN 7506

1. FOREIGN EXCHANGE MARKET: FOLLOWING RATHER UNEVENTFUL DEVELOPMENT DURING THE FIRST FOUR DAYS OF THE WEEK OF MAY 3, THE DOLLAR STRENGTHENED AGAINST THE DEUTSCHEMARK ON FRIDAY, MAY 7 AND THIS TREND CONTINUED THROUGH MONDAY, MAY 10 AND TUESDAY, MAY 11. ON FRIDAY, MAY 7, THE DOLLAR (SPOT RATE) FLUCTUATED BETWEEN DM 2.5330, AND DM 2.5440 AND WAS FIXED AT DM 2.5363. THE FOLLOWING UNCLASSIFIED

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MONDAY, MAY 10, THE DOLLAR OPENED SLIGHTLY DOWN AT DM

2.5340 BUT SUBSEQUENTLY ROSE TO AND WAS FIXED AT DM 2.5440. THIS IS THE FIRST FIXING SINCE APRIL 7 AT A RATE IN EXCESS OF DM 2.54. ON MAY 11, TUESDAY, THE OPENING RATE WAS DM 2.5430 AND FIXING WAS SET AT DM 2.5460.

2. ONE FACTOR CONTRIBUTING TO THE STRENGTHENING OF THE DOLLAR HAS BEEN THE INCREASED INTEREST RATE DIFFERENTIAL BETWEEN EURO-DOLLAR AND EURO-DM'S. ON MAY 5, ONE-MONTH EURO-DOLLARS SOLD AT L.7 PERCENTAGE POINTS ABOVE ONE-MONTH EURO-DM'S. ON MAY 10 THIS DIFFERENTIAL HAD INCREASED TO 2.0 PERCENTAGE POINTS. THREE-MONTH EURO-RATES DEVELOPED SIMILARLY WITH A 2 PERCENT SPREAD IN FAVOR OF THE EURO-DOLLAR ON MAY 5 INCREASING TO 2.3 ON THE 10TH. DURING THE PERIOD MAY 3-11, SPOT DOLLARS (FRANKFURT FIXING RATE) DEVELOPED AS FOLLOWS:

SPOT DOLLARS

MAY 3	DM 2.5320
4	2.5312
5	2.5320
6	2.5318
7	2.5363
10	2.5440

3. THE ITALIAN LIRA STRENGTHENED CONSIDERABLY ON GERMAN FOREIGN EXCHANGE MARKETS FOLLOWING THE INTRODUCTION OF THE ITALIAN DEPOSIT MEASURES. THE LIRA/DM RATE ROSE TO DM 3.081 ON MAY 10. THIS REPRESENTS AN 11.5 PERCENT INCREASE FROM THE RECORD LIRA LOW OF DM 2.763 RECORDED ON MAY 5. ON GERMAN MARKETS STERLING ALSO CONTINUED UPWARD, RISING FROM DM 4.608 ON MAY 4 TO DM 4.6650 ON MAY 10. THE RECENT U.K. WAGE POLICY AGREEMENT, AS WELL AS REMARKS OF BUNDESBANK VICE PRESIDENT EMMINGER, WHO STATED THAT THE POUND IS UNDERVALUED AND THAT BRITAIN HAS EXCELLENT OPPORTUNITIES FOR AN EXPORT-LED ECONOMIC RECOVERY, PROBABLY AIDED THIS RESURGENCE.

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4. BUNDESBANK FOREIGN EXCHANGE POSITION: IN THE PERIOD APRIL 24-30 THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.6 BILLION AND NOW TOTALS DM 92.9 BILLION. THE BUNDESBANK REPORTS THAT THE DECLINE RESULTED MAINLY FROM "OTHER" (PRESUMABLY GOVERNMENT) TRANSACTIONS AND ONLY TO A SMALL EXTENT FROM INTERVENTIONS IN EXCHANGE MARKETS. IN CONNECTION WITH THE SETTLEMENT OF BUNDES-

BANK ACCOUNTS AT THE EUROPEAN FUND FOR MONETARY COOPERATION ARISING FROM EXCHANGE MARKET INTERVENTIONS, BUNDESBANK CLAIMS ON THE FUND DECLINED BY DM 4,829 MILLION WHILE ON THE OTHER HAND, HOLDINGS OF FOREIGN EXCHANGE INCREASED BY DM 3,698 MILLION, SDR HOLDINGS WERE UP BY DM 427 MILLION AND GERMANY'S IMF GOLD TRANCHE POSITION ROSE BY DM 134 MILLION. FOREIGN LIABILITIES INCREASED SLIGHTLY BY ABOUT DM 30 MILLION.

5. MONEY MARKET: AFTER THE MAY 1 INCREASE IN MINIMUM

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R 111731Z MAY 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 8786

INFO AMEMBASSY BERN

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AMEMBASSY LONDON

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RESERVE RATIOS FOR DOMESTIC AND FOREIGN LIABILITIES OF

BANKS (SEE BONN 7506) RATES ON THE GERMAN MONEY MARKET SHOWED LITTLE CHANGE. CALL MONEY RATE CURRENTLY APPROXIMATES THE LEVEL OF THE 3 1/2 PERCENT REDISCOUNT RATE. DURING THE REPORTING WEEK FRANKFURT INTER-BANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

MAY 3	3.4-3.5	3.50	3.60
4	3.4-3.6	3.50	3.60
5	3.5-3.7	3.60	3.70
6	3.5-3.7	3.60	3.70

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7	3.5-3.7	3.60	3.70
10	3.4-3.6	3.60	3.70

6. BANK LIQUIDITY: IN THE LAST WEEK OF APRIL (APRIL 24-30) BANK LIQUIDITY INCREASED BY DM 0.5 BILLION. THE MAJOR FACTOR INCREASING LIQUIDITY WAS A DECLINE IN OFFICIAL DEPOSITS WITH THE BUNDESBANK AT THE END OF A MONTH OF DM 6.2 BILLION. LIQUIDITY WAS REDUCED DUE TO TO A DECLINE IN CURRENCY IN CIRCULATION AT THE END OF A MONTH (DM 4.4 BILLION), THE ABOVE MENTIONED DECLINE IN BUNDESBANK MONETARY RESERVES (0.6 DM BILLION) AND A DM 0.3 BILLION INCREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK. OTHER FACTORS, NET, REDUCED LIQUIDITY BY DM 0.4 BILLION. THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE REDISCOUNT BORROWINGS AT THE BUNDESBANK (TO DM 3.6 BILLION AS COMPARED WITH A REDISCOUNT POTENTIAL OF ABOUT DM L3 BILLION).

7. SCHMIDT CALLS FOR RETURN TO FIXED EXCHANGE RATES AT SOME FUTURE DATE: AT THE 1976 ANNUAL MEETING OF THE GERMAN SAVINGS BANKS, CHANCELLOR SCHMIDT CALLED FOR A POSSIBLE RETURN TO FIXED EXCHANGE RATES AT SOME FUTURE TIME. SCHMIDT STATED THAT UNDER CURRENT CONDITIONS FLOATING EXCHANGE RATES ARE PROPER BUT THAT ECONOMIC POLICY MAKERS SHOULD NOT FORGET THE OBJECTIVE OF RETURNING TO FIXED EXCHANGE RATES. IN SCHMIDT'S VIEW SMALL COUNTRIES AND SMALL AND MEDIUM-SIZED FIRMS SUFFER CONSIDERABLE DIFFICULTIES UNDER A SYSTEM OF FLOATING EXCHANGE RATES.

8. BOND MARKET: BOND PRICES, PARTICULARLY FOR PUBLIC BONDS WITH SHORT REMAINING MATURITIES, DECLINED FURTHER DURING THE REPORTING WEEK (BASED ON HANDELSBLATT DATA). YIELDS OF OUTSTANDING DOMESTIC BONDS, BROKEN OUT ACCORDING TO REMAINING MATURITIES WERE AS FOLLOWS:

APRIL 28 MAY 5

7 PERCENT 8 PERCENT 7 PERCENT 8 PERCENT

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PUBLIC BONDS

3-5 YEARS	6.83	7.19	7.24	7.29
OVER 5-8 YEARS	7.73	7.60	7.74	7.62

INDUSTRIAL BONDS

5-8 YEARS	7.91	8.05	7.91	8.03
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MORTGAGE AND COMMUNAL

BONDS

5-10 YEARS	7.93	7.97	8.01	7.99
OVER 10-15 YEARS	8.61	8.83	8.64	8.83

9. FOREIGN DM LOANS: THE DM 100 MILLION LOAN OF THE NORGES COMMUNAL BANK WILL BE OFFERED AT THE FOLLOWING CONDITIONS: COUPON 7 PERCENT, ISSUE PRICE 100.50, MATURITY 5 YEARS NON-CALLABLE. THE BERLINER HANDELS- AND FRANKFURTER BANKS HAVE SIGNED A CONTRACT ON THE ISSUE OF A DM 60 MILLION LOAN OF THE EUROPEAN COUNCIL (COUPON 7 3/4 PERCENT, ISSUE PRICE 100, MATURITY 7 YEARS). THE NORWEGIAN FIRM NORPIPE WILL OFFER A DM 100 MILLION LOAN AT AN EXPECTED COUPON RATE OF 8 PERCENT AND A MATURITY OF 12 YEARS. FINAL CONDITIONS WILL BE DETERMINED ON MAY 12.

10. ECONOMIC INDICATORS PUBLISHED THIS WEEK: MOST RECENT

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R 111731Z MAY 76

FM AMEMBASSY BONN

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INDICATORS ARE CONTAINED IN BONN 07830.

11. TRADE WITH THE EAST: RECENT ECONOMICS MINISTRY PUBLICATIONS SHOW THAT GERMAN TRADE WITH CENTRALLY PLANNED ECONOMIES FOR THE 1ST QUARTER OF 1976 HAS INCREASED BY 18.4 PERCENT OVER THE IDENTICAL PERIOD IN 1975. IMPORTS FROM CENTRALLY-PLANNED ECONOMIES SHOWED A 31.2 PERCENT INCREASE IN 1ST QUARTER OF 1976 AND EXPORTS WERE 12.2 PERCENT HIGHER THAN IN 1ST QUARTER A YEAR AGO. COUNTRIES SHOWING MAJOR INCREASES ON BOTH SIDES OF THE LEDGER WERE: USSR WITH A 33.3 PERCENT GROWTH IN EXPORTS TO FRG AND 45.6 PERCENT GROWTH IN IMPORTS FROM FRG AND CHINA, WITH 55.5 PERCENT EXPORT UNCLASSIFIED

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GROWTH AND 63.8 PERCENT IMPORT GROWTH.

12. HERSTATT SAVERS LOSE SUIT AGAINST FEDERAL BANKING SUPERVISORY AUTHORITY: A BONN COURT HAS NOW REJECTED A CLAIM OF THE ASSOCIATION OF HERSTATT SAVERS REGARDING THEIR LOSSES IN THE HERSTATT BANKRUPTCY. THE ASSOCI-

ATION HAD CLAIMED THAT THE BANKING SUPERVISORY AUTHORITY
SHOULD HAVE CLOSED THE HERSTATT EARLIER THEREBY PRE-
VENTING, OR AT LEAST REDUCING, THE FINAL LOSSES OF THE
BANK.
HILLENBRAND

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